




# **Public-Private Partnerships**

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# Public-Private Partnerships

- Contractual agreements under which the public and private sectors join together in a partnership to serve the public
- Transfers a public asset's operations or ownership to a private entity
- Public-Private Partnerships take many forms
  - Concession: transfer of right to operate and maintain public asset for a specified term
  - Equity sale/IPO: creates public traded or stand-alone private company; state retains majority ownership
  - Privatization/outright sale: permanent sale of public asset to private entity in exchange for one upfront payment

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# Factors Contributing to Interest in Public-Private Partnerships

- Supply Side Factors contributing to P3 activity
  - Fiscal pressures at the state and local government levels to cut spending and reduce deficits without increasing taxes
  - Increased government awareness of and desire to mitigate operating costs
- Demand Side Factors contributing to P3 activity
  - Increased capital available for investment
  - Infrastructure assets represent long duration investments with diversification benefits
  - Equity investments provide high dividend yields with leveraged growth tied to GDP and/or inflation
  - There are at least 20 to 30 private investment funds with significant resources interested in Public-Private Partnership investments and are driving industry activity

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## **Eligible Public Assets for Privatization**

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- Toll roads
- Bridges
- Tunnels
- Water/sewer facilities
- Parking garages
- Lotteries
- Airports

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## Other Public-Private Partnership Activity

Asset	Public Entity	Status
Toll Road	Indiana	Operating under private lease
	Chicago (Skyway)	Operating under private lease
	Pennsylvania	Under consideration
	New Jersey	Under consideration
	Texas	Under consideration
Airport	Midway Airport (IL)	Pending
Bridge	Missouri	Under consideration
Lottery	California	Announced by Governor, no legislation introduced, bias toward securitization
	Colorado	Failed ballot initiative in 2006
	Illinois	Legislation circulating, public opposition
	Indiana	On hold
	Massachusetts	Under consideration, no legislation pending
	New Jersey	Needs voter approval, no legislation pending, bias toward securitization
	Ohio	Under consideration, no legislation pending
	Texas	Under consideration, no legislation pending

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# Michigan Assets Suitable for Privatization

Asset	Issues
Lottery	Need replacement revenue sources to education programs
Bridges Mackinac  International Ambassador Blue Water	Significant maintenance issues and major in-state resistance to increasing tolls Partial Canadian control Private ownership and partial Canadian control Partial Canadian control
Windsor Tunnel	Owned by Ontario and the City of Detroit
Water & Sewer	Locally owned and controlled
Parking Decks	Most facilities locally or privately owned
Toll Roads	None currently exist; sale to private entities would result in the imposition of new tolls

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# Michigan Lottery Monetization

- In fiscal year 2006, the Lottery generated \$688 million for the School Aid Fund
- Any Lottery monetization would result in the need to replace the current revenues generated for the School Aid Fund
- In order to replace the Lottery revenues going to the School Aid Fund on an ongoing basis, approximately \$14 billion in upfront proceeds would need to be generated and invested at 5%
- Preliminary Lottery securitization or concession proceed estimates from vendors vary widely from \$500 million to \$16 billion
  - A securitization pledges net Lottery revenues as security on a revenue bond issue
    - To raise \$16 billion in a securitization would require all net Lottery revenues to be pledged for debt service over a 40 year period
    - A \$500 million securitization would require \$22 million of net Lottery revenues to be pledged for debt service over a 40 year period
  - A concession transfers the right to operate and maintain the Lottery to a private entity in exchange for an upfront payment
- To date, no concession sale has been completed in the U.S.

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## Issues to Consider

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- Public-private partnerships may not be suitable for balancing the budget as a one time solution
- Ongoing public program revenues would need to be replaced
- Public policy issue of transferring control of public assets to private entities



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# Public-Private Partnerships (P3s) in the Press

- “PPPs offer taxpayers more efficiency and accountability. And if local policy makers can involve the private sector in paying for highway projects, there’s less incentive to raise taxes to fund new roads.” *The Wall Street Journal*, **Road Blockhead**, June 26, 2007
- “Rep. Peter DeFazio, D-Ore., said one danger is that the tolling associated with P3 deals could price out low- and middle- income commuters.” *The Bond Buyer*, **P3s Divide Continues**, June 8, 2007
- “When a government agency considers contracting with a private company to renovate, construct, operate, maintain, manage or finance a facility or system, there are many issues that must be examined. Paramount among these responsibilities must be preserving the integrity of our integrated national surface transportation system and protecting the public interest.” **U.S. House of Representatives, Committee on Transportation and Infrastructure, Position Paper (P3s)**, June 4, 2007
- “Put services in the hands of the private sector, his [Governor Schwarzenegger] argument goes, and the potential for profit will bring a new urgency to providing for the public... Opponents of privatization say it simply doesn't work. Unions point to failed experiments that ended with projects not completed on time, services deteriorating and tax dollars wasted.” *Los Angeles Times*, **California's governor impressed by privatization he sees in Canada**, June 2, 2007

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## Public-Private Partnerships (P3s) in the Press (Cont.)

- “Although Bush administration officials have lauded P3s at every turn, the Committee on Transportation and Infrastructure of the U.S. House of Representatives believes that many of the arrangements that have been proposed do not adequately protect the public interest.” **U.S. House of Representatives, Committee on Transportation and Infrastructure Letter**, May 10, 2007
- “There are some advantages to private control of roads, utilities, lotteries, parking garages, water systems, airports, and other properties. To pay for upkeep, private firms can raise rates at the tollbooth without fear of being penalized in the voting booth... But are investors getting an even better deal? It's a question with major policy implications as governments relinquish control of major public assets for years to come.” *Business Week*, **Roads to Riches**, May 7, 2007
- “Taking lotteries out of state hands could raise tricky social policy issues, as private operators will be interested in maximizing revenue without the sensitivity publicly elected officials face.” *New York Times*, **Illinois Seeks to Privatize Its State Lottery**, January 22, 2007